Japan Tax Update

Overview of 2026 Tax Reform Proposals

December 2025

In brief

On December 19, 2025, the Japanese government released the 2026 Tax Reform Proposals (the "2026 Tax Reform Proposals"). This newsletter will provide a summary of the major components. The full Japanese publication can be found here. PwC Tax Japan's Japanese summary can be found here.

The 2026 Tax Reform Proposals are focused on continuing to build a strong economy, while at the same time addressing the current high inflation in Japan. Multinational enterprises in the e-commerce industry will be interested in consumption tax proposals related to low value goods, while those contemplating capital investments in Japan may benefit from some of the proposed tax incentives.

In detail

1. Corporate Tax

a) Tax Measures to Promote Policy Objectives

i) Tax measures to promote investment in production facilities

Upon receiving approval from the Ministry of Economy, Trade and Industry ("METI") of a capital investment plan pursuant to the Industrial Competitiveness Enhancement Act, companies that make such approved investments will be entitled to either immediate depreciation of the relevant asset or a tax credit (4% or 7% depending on the nature of the asset). Details are set out in the table below.

Item	Overview
Basic Eligibility Requirements	• Acquire and commence use of the approved asset within five years after the date of approval by METI
Tax Measures (elect one)	• Immediate depreciation • 7% tax credit (4% for buildings and structures, facilities attached to buildings), with a limit of 20% of the corporate tax amount

Nature of Investment	• Investments approved by METI under the Industrial Competitiveness Enhancement Act meeting the following criteria: 1. Capital investment amount is JPY 3.5 billion or more (JPY 500 million or more for small and medium-sized enterprises ("SMEs")) 2. The annual average return on investment is 15% or higher 3. The investment plan must specify the funding method 4. The investment plan is based on a decision made by an appropriate governing body of the corporation, such as the Board of Directors 5. The corporation's capital investment is increased overall
Eligible Assets	• Machinery and equipment, tools, fixtures and fittings, buildings, building fixtures, structures, software [office supplies, head office / dormitory buildings and welfare facilities are not eligible] • Assets must be of a certain scale or larger, based on the nature of the asset
Excess Over Deduction Limit	• Three-year carry forward (requires certification by METI)
Other	• Cannot be used concurrently with other tax incentives designed to promote policy objectives

ii) Revisions to research and development tax credit system

Revisions will be made to the research and development ("R&D") tax credit system, including adding a new strategic technology category. Additionally, the scope of R&D tax credits applicable to general R&D and open innovation will be revised. Details are set out in the table below.

Category of R&D	Revisions
Strategic Technology (New)	• Requires certification pursuant to the Industrial Technology Enhancement Act by 31 March 2029. Applicable for five years from the date of certification • 40% tax credit for priority technology R&D expenses; 50% tax credit for special priority technology R&D expenses (both as defined) • Target technologies are those related to artificial intelligence ("AI"), advanced robotics, quantum computing, semiconductors, healthcare, fusion energy, and aerospace • Deduction limit is 10% of the corporate tax amount • Three-year carry forward of excess over the deduction limit may be possible (requires an increase in R&D expenses in the deduction year compared to the previous year) • Cannot be applied concurrently with certain other incentives
General	• Extend certain special provisions for a further three years (relating to tax credit cap, percentage change in year-on-year R&D, R&D expenses over 10%, etc.)
Open Innovation	• Expansion of scope of eligible R&D expenses using highly skilled research personnel • R&D tax credits related to certain pharmaceuticals cannot be applied concurrently with the new R&D tax credits related to Strategic Technology
Overseas Contracted R&D Expenses	• 50% of the R&D expenses is eligible for R&D tax credit (currently: 100%) [70% in FY2026, 60% in FY2027, 50% in FY2028 and thereafter] • Tax credits for overseas commissioned R&D expenses for clinical trials of pharmaceuticals remain unchanged

iii) Salary increase tax incentives

Other than for SMEs, the salary increase tax incentives system will largely be abolished. Details are set out in the table below.

Taxpayer	Revisions
All companies (other than those below)	• System abolished as of 31 March 2026 (for fiscal years beginning on or after 1 April 2026)
For medium-sized enterprises	• System abolished as of 31 March 2027 (for fiscal years beginning on or after 1 April 2027) • For fiscal years beginning on or after 1 April 2026: stricter application requirements (base wage increase rate from 3% to 4% for standard application; wage increase rates from 4%-6% for additional application) and abolition of additional measures for education and training expenses
For SMEs	• Abolish additional measures for education and training expenses

iv) Extension of tax measures for investment in open innovation

Availability of open innovation investment promotion tax incentives will be extended for two years with the revisions set out in the table below.

Item	Revisions
New Investment	• The minimum acquisition price requirement for shares in a domestic corporation acquired by a corporation other than an SME is increased to JPY 200 million or more (currently: JPY 100 million or more)
M&A (outright acquisition)	• The minimum acquisition price requirement is increased to JPY 700 million (currently: JPY 500 million or more) • Certain new rules will apply for treatment of the special accounts
M&A (acquisition in stages)	• Expanded to include special new business development companies (tokubetsu shinjigyo kaitaku jigyosha) acquired from parties other than the issuing corporation, where it is expected that the acquirer will represent a majority of the voting rights of the issuing corporation's shareholders within three years from the acquisition date (excluding where a majority of the voting rights is already held immediately prior to acquisition) • The minimum acquisition price requirement is JPY 300 million with an upper limit of JPY 20 billion • An amount not exceeding 20% of the acquisition cost of specified shares, held in a special account, can be deducted as an expense up to the amount of income for that fiscal year • If a majority of voting rights is not held within three years after acquisition, a reversal of the special account (recognition as income) is required, among other conditions • Excludes acquisitions of shares held under a special account established for a new investment on or after 1 April 2023

v) Revision of various other tax measures

- Carbon neutrality: the carbon neutral investment promotion tax incentives will be revised, including raising the carbon productivity improvement rate, lowering the special depreciation and tax credit rates, and extending the application period by two years.

- Regional investment: the office building tax reduction will be extended for two years after certain revisions. The employment promotion incentive (increase in number of employees) will not be renewed.

- Infrastructure funds (Investment Corporations): the acquisition deadline for eligible renewable energy plants (currently 31 March 2026) will be extended by five years, provided that such facilities are limited to those that convert solar, wind, hydro, or geothermal power to electricity.

b) Taxation of Small and Medium-Sized Enterprises

i) Expansion of scope of special R&D tax credits

The application period for the special R&D tax credit (maximum rate of 17%) when the increase in R&D expenses exceeds 12%, and the special upper limit for the credit (10% increase), will be extended by three years. Excess amounts over the credit limit may be carried forward for three years.

ii) Depreciation of low-value assets

The threshold acquisition cost for immediate depreciation of low-value assets will be raised to less than JPY 400,000 (currently: less than JPY 300,000). Corporations with over 400 regular employees will be excluded from eligibility, and the application period will be extended by three years.

c) Other

i) Documents to be retained for intragroup transactions

Domestic corporations entering into certain specified transactions with related parties, i.e., transfer or licensing of intellectual property and certain services (primarily cost recharges / management fees from parent entities), will be required to maintain documentation to support the details and pricing of such transactions. The definition of related parties will follow that stipulated in the transfer pricing legislation. In effect, a form of domestic transfer pricing requirement is introduced for the specified transactions.

2. International Taxation

a) Pillar Two

i) Revision to the income inclusion rule

For the purpose of calculating adjusted covered taxes, certain deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs") recorded prior to the transition year will be excluded if they arise from:

1. Specific Tax Credit Agreements – DTAs arising from tax credit agreements concluded with the national government or local public entities if the agreement was concluded on or after 1 December 2021.
2. Asset or Liability Revaluations under Foreign Laws – DTAs or DTLs recognized due to the "mark-to-market" fair value revaluation of assets or liabilities under foreign laws enacted between 1 December 2021 and the day before the beginning of the transition accounting period.

The new calculation method will apply to fiscal years beginning on or after April 1, 2026.

b) Other

i) Japanese Controlled Foreign Corporation rules

The Controlled Foreign Corporation (CFC) tax system will be revised to clarify the treatment of foreign related companies that enter liquidation. The changes will be effective for fiscal years beginning on or after 1 April 2026.

ii) Taxation of foreign partners

The special taxation provisions for foreign partners of Investment Business Limited Partnerships or similar foreign partnerships with a general partner in Japan (commonly known as the "Fund PE Income Exemption") will be amended. Further details can be found here.

3. Consumption Tax

a) Qualified invoicing system

i) Changes to transitional measures

The transition period during which a portion of input consumption tax on taxable purchases from non-qualified invoice issuers can still be claimed will be extended by two years, and the applicable deductible ratios will be revised.

Existing transitional measures

Period	Deductible Ratio
1 October 2023 to 30 September 2026	80%
1 October 2026 to 30 September 2029	50%
1 October 2029 on	0%

Proposed transitional measures

Period	Deductible Ratio
1 October 2023 to 30 September 2026	80%
1 October 2026 to 30 September 2028	70%
1 October 2028 to 30 September 2030	50%
1 October 2030 to 30 September 2031	30%
1 October 2031 on	0%

In addition, the annual upper limit for purchases per tax-exempt supplier will be reduced to JPY 100 million (currently: JPY 1 billion) starting from taxable periods beginning on or after 1 October 2026.

b) Cross border e-commerce

i) Low-value goods

The import of goods into Japan by mail order with a tax-exclusive price of JPY 10,000 or less per item will be subject to local supply consumption tax at the level of the seller. Concurrently, measures will be implemented whereby a seller may register as a seller of such low-value goods and assume the consumption tax liability, exempting the consumer (importer) from such consumption tax. This amendment will apply to transactions occurring on or after 1 April 2028.

ii) Platform taxation for physical goods

The proposal also introduces platform-level taxation for marketplaces that intermediate certain categories of supplies. A platform operator whose annual transaction value, tax inclusive, exceeds JPY 5 billion will be designated a "Type 2 Platform Operator":

1. Supply of goods conducted in Japan by foreign businesses; and
2. Supply of low-value imported goods made by any business, including domestic businesses.

For qualifying transactions where consideration is received through a Type 2 platform operator, the supplies described in 1. and 2. would be deemed to be made by that platform operator. In addition, with the prior consent of the relevant foreign merchant, import consumption tax and other input taxes attributable to supplies under 1. may be treated as incurred by the Type 2 platform operator for purposes of the input tax credit.

This amendment applies to transactions occurring on or after 1 April 2028.

Additionally, the designation of "specified platform operator" for platform operators providing a platform for the sale of B2C-type electronically supplied services (introduced in the 2024 Tax Reform) will be changed to "Type 1 platform operator". For details of platform taxation in relation to Type 1 platform operators, see here.

c) Other

i) Transfers of cryptocurrency

Transfers of cryptocurrency assets, which are currently non-taxable, will be treated as transfers of instruments similar to securities. Consequently, an amount equivalent to 5% of the consideration for the transfer will be included in the calculation of the taxable sales ratio of the seller. This amendment applies to transfers occurring on or after 1 January of the year following the enforcement date of the relevant amendment to the Financial Instruments and Exchange Act.

The lending of cryptocurrency assets will be a non-taxable transaction for consumption tax purposes.

4. Individual Income Tax and Inheritance Tax

a) Income tax

i) Revisions to deductions

A number of revisions have been made to certain deductions and adjustments for individual income tax. Some of these are summarised below.

- Basic deduction: from the 2026 tax year on, will be raised to JPY 620,000 (currently: JPY 580,000) for individuals with total income of JPY 23.5 million or less. The basic deduction will be increased further for those earning income of less than JPY 6.55 million.

- Minimum guaranteed salary amount required in order to be eligible for salary income deduction: from the 2026 year on, will be increased to JPY 690,000 (currently: JPY 650,000). A further JPY 50,000 will be added for the 2026 and 2027 tax years as a special provision.

Note:

- Due to the above revisions, the so-called JPY 1.03 million threshold for taxable income will become a JPY 1.78 million threshold, i.e.,

  Salary income JPY 1,780,000 - Salary Income Deduction (Minimum Guaranteed JPY 690,000 + Additional JPY 50,000) - Basic Deduction (JPY 620,000 + Special Provision JPY 420,000) = Zero Taxable Income

- In conjunction with the above revisions, the total income requirements for spouses and dependents living in the same household, as well as the total income requirements for working students, will be raised starting with the 2026 tax year.

- Mortgage interest deduction: the application period will be extended, and certain requirements will be relaxed so as to widen the scope of application.

- NISA exemptions: expansion of the NISA program to minors.

- Hometown tax (furusato nozei) deduction: the upper limit for a deduction in individual residents' tax will be set at JPY 1.93 million (currently: no upper limit). This limit is reached with salary income equivalent to JPY 100 million and will apply starting with the 2028 tax year (for donations made in 2027).

ii) Taxation of capital gains from cryptocurrency transactions

Capital gains from transferring specified cryptocurrency assets (cryptocurrency assets registered in the Financial Instruments Business Operator Registration List) to cryptocurrency businesses will be subject to separate taxation at a rate of 20.315% (15% income tax, surtax of 2.1% and 5% individual inhabitants' tax; currently potentially taxable to individuals as miscellaneous income at graduated rates up to 55%). Furthermore, if a loss occurs, it can be carried forward for deduction over three years under certain conditions. The effective date is 1 January of the year following the enforcement date of the amended Financial Instruments and Exchange Act.

iii) Increase in tax-exempt limits for allowances and subsidies

The tax-exempt limits for commuting allowances and employer-provided meal subsidies will be raised.

Item	Current	Proposal
Commuting allowance	Flat Rate for one-way of 55 km or more: JPY 38,700	Five-tier system • One-way 55 km or more: JPY 38,700 • One-way 65 km or more: JPY 45,700 • One-way 75 km or more: JPY 52,700 • One-way 85 km or more: JPY 59,600 • One-way 85 km or more: JPY 66,400

Parking	–	Monthly fee: JPY 5,000
Meal allowance	Monthly JPY 3,500	Monthly JPY 7,500
Late-night work meal allowance	JPY 300 per meal	JPY 650 per meal

b) Special Taxation Measures

i) Introduction of the Special Defence Income Tax

A Special Income Tax to Strengthen Defence Capabilities of 1% on the income tax liability will be levied to support government defence spending. The tax will apply from January 2027, with no specified end date.

ii) Revision to the Reconstruction Special Income Tax

The tax rate for the Reconstruction Special Income Tax will be reduced to 1.1% (currently 2.1%) offsetting the initial impact of the Special Defence Income Tax. The sunset date for this reduction will be extended from 2037 to 2047.

The takeaway

Although the 2026 Tax Reform Proposals may not have as significant impact for multinational enterprises as the tax reforms of prior years, there are still certain provisions that should be noted and assessed for impact. Taxpayers are advised to consult with their tax advisors for further details of the 2026 Tax Reform Proposals, and of the laws themselves once enacted in March 2026.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

PwC Tax Japan
Otemachi One Tower, 1-2-1 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan
Email：jp_tax_pr-mbx@pwc.com
www.pwc.com/jp/e/tax

Kazuhito Asakawa
Partner

Ryann Thomas
Partner

Shintaro Yamaguchi
Partner

Akemi Kito
Managing Director

Shogo Tsuruta
Director

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E-learning

PwC Tax Japan launched a new e-learning program called Tax Academy in October 2022, to support those wishing to develop their skills in the international tax field. For tax professionals outside Japan, the 'Introduction to Japanese taxes' series within Tax Academy provides a basic outline of the Japanese tax system, including corporate tax and consumption tax, and covers key points of international tax practice in English.

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